

**FCC Form 481 - Carrier Annual Reporting
Data Collection Form**FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

| | | |
|-------|---|-------------------------|
| <010> | Study Area Code | 482248 |
| <015> | Study Area Name | NORTHERN TEL COOP |
| <020> | Program Year | 2017 |
| <030> | Contact Name: Person USAC should contact with questions about this data | Mike Sheard |
| <035> | Contact Telephone Number: Number of the person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address: Email of the person identified in data line <030> | msheard@northerntel.net |
| | Form Type | 54.313 and 54.422 |

**(100) Service Quality Improvement Reporting
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

| | | |
|-------|---|-------------------------|
| <010> | Study Area Code | 482248 |
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| <030> | Contact Name - Person USAC should contact regarding this data | Mike Sheard |
| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

| | | | |
|-------|---|-------------|--|
| <110> | Has your company received its ETC certification from the FCC? | (yes / no) | <input type="radio"/> <input checked="" type="radio"/> |
| <111> | If your answer to Line <110> is yes, do you have an existing §54.202(a) "5 year plan" filed with the FCC? | (yes / no) | <input type="radio"/> <input type="radio"/> |

If your answer to Line <111> is yes, please file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.

482248mt112.pdf

Name of Attached Document

Please select the appropriate responses below (Yes, No, Not Applicable) to confirm that the attached document(s), on line 112, contains a progress report on its five-year service quality improvement plan pursuant to §54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

- <113> Maps detailing progress towards meeting plan targets
- <114> Report how much universal service (USF) support was received
- <115> How much (USF) was used to improve service quality and how support was used to improve service quality
- <116> How much (USF) was used to improve service coverage and how support was used to improve service coverage
- <117> How much (USF) was used to improve service capacity and how support was used to improve service capacity
- <118> Provide an explanation of network improvement targets not met in the prior calendar year.

| |
|----------------|
| Yes |
| Yes |
| Yes |
| Yes |
| Yes |
| Not Applicable |

| | | |
|-------|---|--------------------------|
| <010> | Study Area Code | 482248 |
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| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msharead@northerntel.net |

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**(300) Unfulfilled Service Request
Data Collection Form**FCC Form 481
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| | | |
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| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

<300> Unfulfilled service request (voice)

0

<310> Detail on attempts (voice)

Name of Attached Document

<320> Unfulfilled service request (broadband)

0

<330> Detail on attempts (broadband)

Name of Attached Document

| | | |
|-------|---|-------------------------|
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| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |
| <400> | Select from the drop-down list to indicate how you would like to report voice complaints (zero or greater) for voice telephony service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize. Offered only fixed voice | |
| <410> | Complaints per 1000 customers for fixed voice | 0 . 0 |
| <420> | Complaints per 1000 customers for mobile voice | |
| <430> | Select from the drop-down list to indicate how you would like to report end-user customer complaints (zero or greater) for broadband service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize. Offered only fixed broadband | |
| <440> | Complaints per 1000 customers for fixed broadband | 0 . 0 |
| <450> | Complaints per 1000 customers for mobile broadband | |

| | | |
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| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |
| <500> | Certify compliance with applicable service quality standards and consumer protection rules | Yes |
| 482248mt510.pdf | | |
| <510> | Descriptive document for Service Quality Standards & Consumer Protection Rules Compliance | |

| | | |
|--|--|---|
| (600) Functionality in Emergency Situations | | FCC Form 481 |
| Data Collection Form | | OMB Control No. 3060-0986/OMB Control No. 3060-0819 |
| | | July 2013 |

| | | |
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| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |
| <600> | Certify compliance regarding ability to function in emergency situations | Yes |
| <610> | Descriptive document for Functionality in Emergency Situations | 482248mt610.pdf |

| | | |
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| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |
| <701> | Residential Local Service Charge Effective Date | 1/1/2016 |
| <702> | Single State-wide Residential Local Service Charge | 16.0 |

[illegible]

| | | |
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| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

-- See attached worksheet --

**(800) Operating Companies
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

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| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |
| <810> | Reporting Carrier | Northern Telephone Cooperative, Inc. |
| <811> | Holding Company | Northern Telephone Cooperative, Inc. |
| <812> | Operating Company | Northern Telephone Cooperative, Inc. |

[illegible]

**(900) Tribal Lands Reporting
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

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| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

 <900> Does the filing entity offer tribal land services? (Y/N) Yes

<910> Tribal Land(s) on which ETC Serves

Blackfeet Reservation

<920> Tribal Government Engagement Obligation

482248mt920.pdf

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached document(s), on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

| Select Yes or No or Not Applicable |
|--|
| Yes |
| |
| Yes |
| Yes |
| Yes |
| Yes |
| Yes |
| Yes |
| Yes |

**(1000) Voice and Broadband Service Rate Comparability
Data Collection Form**

FCC Form 481

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| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

<1000> Voice services rate comparability certification Yes

<1010> Attach detailed description for voice services rate comparability compliance 482248mt1010.pdf

Name of Attached Document

<1020> Broadband comparability certification Yes - Pricing is no more than the most recent applicable benchmark announced by the Wireline Competition Bureau

<1030> Attach detailed description for broadband comparability compliance 482248mt1030.pdf

Name of Attached Document

**(1100) No Terrestrial Backhaul Reporting
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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| <010> | Study Area Code | 482248 |
| <015> | Study Area Name | NORTHERN TEL COOP |
| <020> | Program Year | 2017 |
| <030> | Contact Name - Person USAC should contact regarding this data | Mike Sheard |
| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

<1100> Certify whether terrestrial backhaul options exist (Y/N)

Yes

<1130> Please select the appropriate response (Yes, No, Not Applicable) to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(g).

(1200) Terms and Condition for Lifeline Customers
Lifeline
Data Collection Form

FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

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| <030> | Contact Name - Person USAC should contact regarding this data | Mike Sheard |
| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

482248mt1210.pdf

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

Name of Attached Document

<1220> Link to Public Website

HTTP

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- | | | |
|--------|---|-------------------------------------|
| <1221> | Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, | <input checked="" type="checkbox"/> |
| <1222> | Details on the number of minutes provided as part of the plan, | <input checked="" type="checkbox"/> |
| <1223> | Additional charges for toll calls, and rates for each such plan. | <input checked="" type="checkbox"/> |

(2000) Price Cap Carrier Additional Documentation

FCC Form 481

Data Collection Form

OMB Control No. 3060-0986/OMB Control No. 3060-0819

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

July 2013

| | | |
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| <010> | Study Area Code | 482248 |
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| <030> | Contact Name - Person USAC should contact regarding this data | Mike Sheard |
| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

Select the appropriate responses below (Yes, No, Not Applicable) to note compliance as a recipient of Incremental High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e). The information reported on this form and in the documents attached below is accurate.

Incremental Connect America Phase I reporting

- <2010> 2nd Year Certification 47 CFR § 54.313(b)(1)(i) - Note that for the July 1 2016 certification, this applies to Round 2 recipients of Incremental Support
- <2011> 3rd Year Certification 47 CFR § 54.313(b)(1)(ii) - Note that for the July 1 2016 certification, this applies to Round 1 recipients of Incremental Support
- <2022> Recipient certifies, representing year two after filing a notice of acceptance of funding pursuant to 54.312(c), that the locations in question are not receiving support under the Broadband Initiatives Program or the Broadband Technology Opportunities Program for projects that will provide broadband with speeds of at least 4 Mbps/1Mbps - 54.313(b)(2)(i). Round 2 recipients only.
- <2023> The attachment on line 2024 includes a statement of the total amount of capital funding expended in the previous year in meeting Connect America Phase I deployment obligations, accompanied by a list of census blocks indicating where funding was spent. This covers year two - 54.313(b)(2)(ii). Round 2 recipients only.
- <2024A> Round 2 Recipient of Incremental Support?
- <2024B> Attach list of census blocks indicating where funding was spent in year two - 54.313(b)(2)(ii). Round 2 recipients only.
- <2025A> Round 1 or Round 2 Recipient of Incremental Support?
- <2025B> Attach geocoded Information for Phase I milestone reports (Round 1 for year three and Round 2 for year two) - Connect America Fund , WC Docket 10-90, Report and Order, FCC 13-
- <2015> 2016 and future Frozen Support Certification 47 CFR § 54.313(c)(4)

Name of Attached Document Listing
Required Information

Name of Attached Document Listing
Required Information

(2000) Price Cap Carrier Additional Documentation (Continued)

FCC Form 481

Data Collection Form

OMB Control No. 3060-0986/OMB Control No. 3060-0819

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

July 2013

Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}

<2016> Certification support used to build broadband

Connect America Phase II Reporting {47 CFR § 54.313(e)}

<2017A> Connect America Fund Phase II recipient?

<2017B> Attach information for Phase II - 54.313(e)(1) - list of geocoded locations already meeting the 54.309 public interest obligations at the end of calendar year 2015 and total amount of Phase II support, if any, the price

Name of Attached Document Listing
Required Information

cap carrier used for capital expenditures in 2015.

<2018> Attach the number, names, and addresses of community anchor institutions to which the carrier newly began providing access to broadband service in the preceding calendar year - 54.313(e)(2)(ii)

Name of Attached Document Listing
Required Information

<2019> Recipient certifies that it bid on category one telecommunications and Internet access services in response to all FCC Form 470 postings seeking broadband service that meets the connectivity targets for the schools and libraries universal service support program for eligible schools and libraries located within any area in a census block where the carrier is receiving Phase II model-based support, and that such bids were at rates reasonably comparable to rates charged to eligible schools and libraries in urban areas for comparable offerings - 54.313(e)(2)(v)

<2020> Recipient certifies that it offered broadband meeting the requisite public interest obligations specified in §54.309 to 40% of its supported locations in the state on December 31, 2017 - 54.313(e)(3)

<2021> Recipient certifies that it offered broadband meeting the requisite public interest obligations specified in §54.309 to 60% of its supported locations in the state on December 31, 2018 - 54.313(e)(4)

<2026> Recipient certifies that it offered broadband meeting the requisite public interest obligations specified in §54.309 to 80% of its supported locations in the state on December 31, 2019 - 54.313(e)(5)

<2027> Recipient certifies that it offered broadband meeting the requisite public interest obligations specified in §54.309 to 100% of its supported locations in the state on December 31, 2020 - 54.313(e)(6)

| | | |
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Complete the items below to note compliance with five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

| | | | |
|---------|--|--|--|
| (3009) | Progress Report on 5 Year Plan Carrier certifies to 54.313(f)(1)(iii) | | |
| (3010A) | Milestone Certification {47 CFR § 54.313(f)(1)(i)} | Yes - Attach Certification | |
| (3010B) | Please Provide Attachment | Name of Attached Document Listing Required Information | 482248mt3010.pdf |
| (3012A) | Community Anchor Institutions {47 CFR § 54.313(f)(1)(ii)} | Yes - Attach New Community Anchors | |
| (3012B) | Please Provide Attachment | Name of Attached Document Listing Required Information | 482248mt3012.pdf |
| (3013) | Is your company a Privately Held ROR Carrier {47 CFR § 54.313(f)(2)} | (Yes/No) | <input checked="" type="radio"/> <input type="radio"/> |
| (3014) | If yes, does your company file the RUS annual report | (Yes/No) | <input type="radio"/> <input checked="" type="radio"/> |
| (3015) | Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires: Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers) | | <input type="checkbox"/> |
| (3016) | Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows | | <input type="checkbox"/> |
| (3017) | If the response is yes on line 3014, attach your company's RUS annual report and all required documentation | Name of Attached Document Listing Required Information | |
| (3018) | If the response is no on line 3014, is your company audited? | (Yes/No) | <input checked="" type="radio"/> <input type="radio"/> |
| (3019) | If the response is yes on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains: Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers | | <input checked="" type="checkbox"/> |
| (3020) | Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows | | <input checked="" type="checkbox"/> |
| (3021) | Management letter and/or audit opinion issued by the independent certified public accountant that performed the company's financial audit. | | <input checked="" type="checkbox"/> |
| (3022) | If the response is no on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains: Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers | | <input type="checkbox"/> |
| (3023) | Underlying information subjected to a review by an independent certified public accountant | | <input type="checkbox"/> |
| (3024) | Underlying information subjected to an officer certification. | | <input type="checkbox"/> |
| (3025) | Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows | | <input type="checkbox"/> |
| (3026) | Attach the worksheet listing required information | Name of Attached Document Listing Required Information | 482248mt3026.pdf |

(3005) Rate Of Return Carrier Additional Documentation (Continued)

FCC Form 481

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Financial Data Summary

| | |
|---|----------|
| (3027) Revenue | 3487575 |
| (3028) Operating Expenses | 3060952 |
| (3029) Net Income | 857050 |
| (3030) Telephone Plant In Service(TPIS) | 30927808 |
| (3031) Total Assets | 14810394 |
| (3032) Total Debt | 0 |
| (3033) Total Equity | 13885607 |
| (3034) Dividends | 0 |

| | | |
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4005 Rural Broadband Experiment

Authorized Rural Broadband Experiment (RBE) recipients must address the certification for public interest obligations, provide a list of newly served community anchor institutions, and provide a list of locations where broadband has been deployed.

Public Interest Obligations – FCC 14-98 (paragraphs 26-29, 78)

Please address Line 4001 regarding compliance with the Commission’s public interest obligations. All RBE participants must provide a response to Line 4001.

4001. Recipient certifies that it is offering broadband to the identified locations meeting the requisite public interest obligations consistent with the category for which they were selected, including broadband speed, latency, usage capacity, and rates that are reasonably comparable to rates for comparable offerings in urban areas?

Community Anchor Institutions – FCC 14-98 (paragraph 79)

4003a. RBE participants must provide the number, names, and addresses of community anchor institutions to which they newly deployed broadband service in the preceding calendar year. On this line, please respond (yes – attach new community anchors, no – no new anchors) to indicate whether this list will be provided.

If yes to 4003A, please provide a response for 4003B.

| | | |
|---|--|--|
| 4003b. Provide the number, names and addresses of community anchor institutions to which the recipient newly began providing access to broadband service in the preceding calendar year. | Name of Attached Document Listing Required Information | |
| | | |

Broadband Deployment Locations – FCC 14-98 (paragraph 80)

| | | |
|--|--|--|
| 4004a. Attach a list of geocoded locations to which broadband has been deployed as of the June 1st immediately preceding the July 1st filing deadline for the FCC Form 481. | Name of Attached Document Listing Required Information | |
| | | |

| | | |
|--|--|--|
| 4004b. Attach evidence demonstrating that the recipient is meeting the relevant public service obligations for the identified locations. Materials must at least detail the pricing, offered broadband speed and data usage allowances available in the relevant geographic area. | Name of Attached Document Listing Required Information | |
| | | |

**Certification - Reporting Carrier
Data Collection Form**

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TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

| Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients | |
|---|---|
| I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate. | |
| Name of Reporting Carrier: NORTHERN TEL COOP | |
| Signature of Authorized Officer: CERTIFIED ONLINE | Date 06/29/2016 |
| Printed name of Authorized Officer: Mike Sheard | |
| Title or position of Authorized Officer: Manager | |
| Telephone number of Authorized Officer: 4069379661 ext. | |
| Study Area Code of Reporting Carrier: 482248 | Filing Due Date for this form: 07/01/2016 |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001. | |

| | |
|---|--|
| Certification - Agent / Carrier Data Collection Form | FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013 |
|---|--|

| | |
|---|-------------------------|
| <010> Study Area Code | 482248 |
| <015> Study Area Name | NORTHERN TEL COOP |
| <020> Program Year | 2017 |
| <030> Contact Name - Person USAC should contact regarding this data | Mike Sheard |
| <035> Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

| Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier | |
|--|--------------------------------|
| I certify that (Name of Agent) _____ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate. | |
| Name of Authorized Agent: | |
| Name of Reporting Carrier: | |
| Signature of Authorized Officer: | Date: |
| Printed name of Authorized Officer: | |
| Title or position of Authorized Officer: | |
| Telephone number of Authorized Officer: | |
| Study Area Code of Reporting Carrier: | Filing Due Date for this form: |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001. | |

TO BE COMPLETED BY THE AUTHORIZED AGENT:

| Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier | |
|--|--------------------------------|
| I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate. | |
| Name of Reporting Carrier: | |
| Name of Authorized Agent Firm: | |
| Signature of Authorized Agent or Employee of Agent: | Date: |
| Name of Authorized Agent Employee: | |
| Title or position of Authorized Agent or Employee of Agent: | |
| Telephone number of Authorized Agent or Employee of Agent: | |
| Study Area Code of Reporting Carrier: | Filing Due Date for this form: |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001. | |

Attachments

| | |
|---|--|
| (700) Price Offerings including Voice Rate Data Data Collection Form | FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013 |
|---|--|

July 2013

| | | |
|-------|--|----------|
| <701> | Residential Local Service Charge Effective Date | 1/1/2016 |
| <702> | Single State-wide Residential Local Service Charge | 16.0 |

[illegible]

| | |
|---|--|
| (710) Broadband Price Offerings Data Collection Form | FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013 |
|---|--|

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

| | | |
|-------|---|-------------------------|
| <010> | Study Area Code | 482248 |
| <015> | Study Area Name | NORTHERN TEL COOP |
| <020> | Program Year | 2017 |
| <030> | Contact Name - Person USAC should contact regarding this data | Mike Sheard |
| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |

[illegible]

| | |
|----------------------------------|---|
| (800) Operating Companies | FCC Form 481 |
| Data Collection Form | OMB Control No. 3060-0986/OMB Control No. 3060-0819 |
| | July 2013 |

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

| | | |
|-------|---|--------------------------------------|
| <010> | Study Area Code | 482248 |
| <015> | Study Area Name | NORTHERN TEL COOP |
| <020> | Program Year | 2017 |
| <030> | Contact Name - Person USAC should contact regarding this data | Mike Sheard |
| <035> | Contact Telephone Number - Number of person identified in data line <030> | 4069379661 ext. |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | msheard@northerntel.net |
| <810> | Reporting Carrier | Northern Telephone Cooperative, Inc. |
| <811> | Holding Company | Northern Telephone Cooperative, Inc. |
| <812> | Operating Company | Northern Telephone Cooperative, Inc. |

[illegible]

FIVE-YEAR SERVICE QUALITY IMPROVEMENT PLAN

PROGRESS REPORT – JUNE, 2016

Introduction

The purpose of this document is to report on Northern Telephone Cooperative's (Northern's) progress on its Five-Year Service Quality Improvement Plan (Plan). The Plan was submitted in June of 2014 within Northern's Form 481 filing. A report was submitted last year describing Northern's progress from January 1 through June 30, 2015. This report describes Northern's progress for the entire calendar year of 2015.

Description of Northern's Network

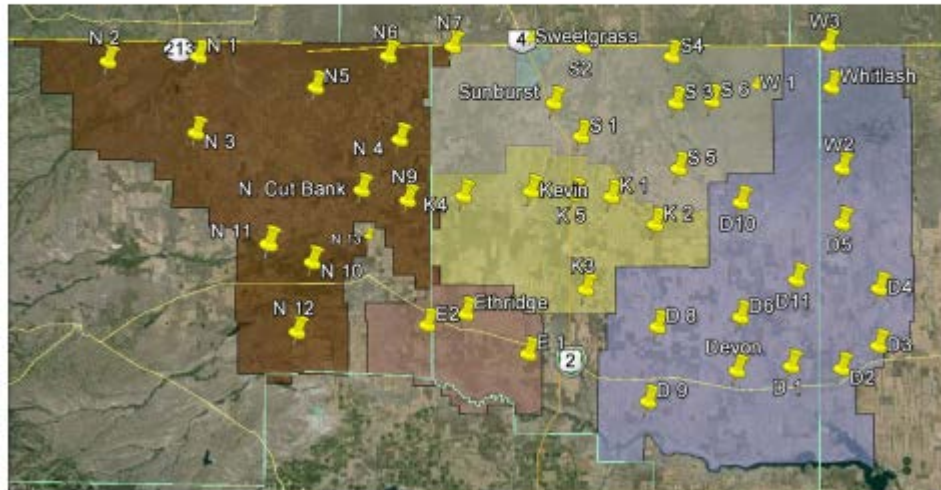
Northern provides service to just over 1,100 homes and businesses scattered across more than 3,200 square miles in north central Montana along the Canadian border. Northern has a single wire center and six exchanges. The following map shows the location of Northern's exchanges relative to the state of Montana:



Each of the six exchanges is further divided into “customer serving areas,” which generally include a fiber “hub site” and local loops connecting each customer in that serving area to the hub site. There are nearly 50 customer serving areas throughout Northern’s service area.

Location of Fiber Hubs/Serving Areas

Each Hub is on Northern’s Fiber Backbone Network



A fiber “backbone” network connects nearly all customer serving area hub sites to Northern’s soft switch for voice and other services. The switch is located in Northern’s Sunburst Central Office. The fiber backbone network is also used to extend broadband Internet access throughout Northern’s service area.

For many years, all of Northern’s customers have had access to copper-loop-based DSL Internet access with download speeds of at least 1 mbps, and in many cases, up to, and exceeding 4 mbps. However, bandwidth demands are rapidly increasing to levels that will eventually exhaust DSL’s capacity.

A few years ago, Northern began to replace its copper loops with high-capacity fiber optic loops. This technology is known as “fiber-to-the-home” or FTTH. In addition to replacing copper loops with fiber optic loops, FTTH also involves the installation of new electronics across Northern’s network and new equipment at each customer location.

As described in its Five-Year Service Quality Improvement Plan filed two years ago, Northern plans to add at least seventy miles of new fiber backbone and loop plant, along with associated electronics to its network each year over the five year plan period.

Northern determines and prioritizes its construction projects each year using variables such as new service requests and the need to replace “problem” copper plant and/or plant with bandwidth capacity constraints.

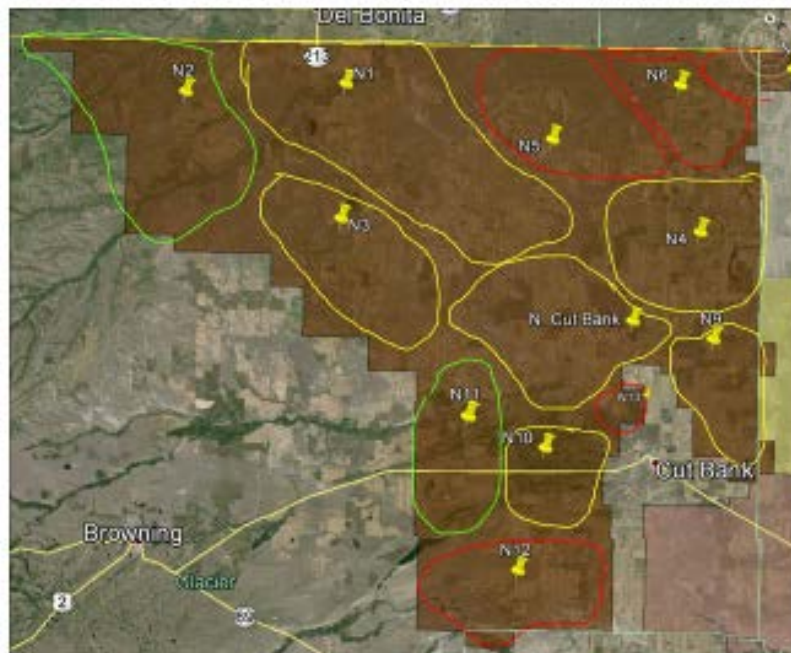
Northern's Progress in calendar year 2015.

Northern exceeded its construction and service quality improvement goals for 2015. Northern's goal was to construct 70 miles of fiber in 2015, but more than 72 miles were completed.

Much of the 2015 fiber construction took place in Northern's North Cut Bank exchange on the Blackfeet Indian Reservation. Northern also extended fiber to four Hutterite Colonies, each of which included a K-8 school. The following bullets summarize the most significant portions of Northern's 2015 progress and the map shows the serving areas where the construction took place:

2015 FTTH Progress – Majority of work in 2015 occurred in the North Cut Bank Exchange

- N1 – FTTH completed to all customers except 3 (waiting for rights-of-way)
- N2 and N11 - FTTH completed to all customers including 2 Hutterite Colonies with elementary schools;
- N3 – FTTH completed to most customers (including a Hutterite Colony with an elementary school;
- N4 – FTTH completed to some customers including a Hutterite Colony with an elementary school;



In addition to the 2015 progress in the North Cut Bank exchange referenced above, Northern also extended fiber loops to several new homes in other exchanges.

The amount of universal service support received by Northern in 2015 was \$1,770,726. Of that amount, \$1,014,803 was spent on capital expenses and \$755,923 was spent on operating expenses.

The FTTH projects and the universal support used towards the completion of these projects will improve service quality, service coverage and service capacity for both voice and broadband service for customers in the covered areas. These customers are now served by brand new state-of-the-art telecommunications plant which will not only be more reliable, but will also provide much greater capacity than the old copper-based plant.

There were no unfulfilled network improvement targets in 2015, and as stated above, Northern exceeded its goals for 2015.

Conclusion

The purpose of this document is to report on Northern's progress on its Five-Year Service Quality Improvement Plan. This report details Northern's progress on the Plan during calendar year 2015.

The report includes an explanation of how much universal service support Northern received in 2015, and how it was used to improve service quality, coverage, and capacity. Northern exceeded its construction and service quality improvement goals for 2015.

Response Line 510
Northern Telephone Cooperative, Inc.
Study Area 482248

Pursuant to 47 C.F.R. § 54.313(a)(5) and or 47 C.F.R. § 54.422(b)(3) Northern Telephone Cooperative, Inc. (“Northern”) is in compliance with appropriate FCC Service Quality Standards and Consumer Protection Rules. Northern is proud of its service quality record and works very hard every day to maintain the high level of service quality for which we are known, and to which our customers have become accustomed. We are a cooperative, and as our motto says, we are “Owned by those we Serve.”

We have engineered and maintain our network and our operations to provide robust, reliable, high quality services to our customers. Furthermore, we have sophisticated monitoring systems that immediately alert our technicians of any changes in power, cooling, network or other conditions that may affect service. Although serious problems are very rare, our technicians are on standby twenty-four hours a day, seven days a week, three hundred sixty-five days a years and immediately respond as necessary to any problems that arise and resolve them before customer service is affected.

Northern also works diligently to protect its customer’s identities and any confidential information that may be in the company’s possession. Northern provides CPNI training for its employees as well as the members of Northern’s Board of Directors. Northern also conducts subscriber outreach regarding CPNI by periodically placing CPNI explanation messages into subscriber’s bills and has signage in its business office regarding CPNI rules and regulations. Northern’s CPNI policies are incorporated into the company’s policies and all company employees are required to sign and acknowledge that they have received and understand the CPNI policies, and will follow them.

Response to Line 610
Northern Telephone Cooperative, Inc.
Study Area 482248

Functionality in Emergency Situations:

Pursuant to 47 C.F.R. § 54.313(a)(6) and 47 C.F.R § 54.22(b)(4) as set forth in 47 C.F.R. § 54.202(a)(2) Northern Telephone Cooperative, Inc. ("Northern") meets the requirements to remain functional in emergency situations. Power to Northern's central office is backed up by a battery plant that can keep the site running for up to 24 hours. In addition, the entire site is backed up by a fixed generator that can keep the site running indefinitely.

Northern's field electronics have 12+ hours of back-up battery power and each site is further protected by either a fixed, or a mobile generator.

Northern also has provisioned self-healing technologies in its core fiber optic network that will automatically reroute traffic should a fiber cut occur. Northern is prepared and capable of managing traffic spikes that could result from emergency situations.

We have engineered and maintain our network and our operations to provide robust, reliable, high quality services to our customers. Furthermore, we have sophisticated monitoring systems that immediately alert our technicians of any changes in power, cooling, network or other conditions that may affect service. Although serious problems are very rare, our technicians are on standby twenty-four hours a day, seven days a week, three hundred sixty-five days a years and immediately respond as necessary to any problems that arise and resolve them before customer service is affected.

Northern is also prepared and capable of managing traffic spikes resulting from emergency situations.

Response to Line 920
Northern Telephone Cooperative, Inc.
Study Area 482248

The purpose of this report is to provide documentation demonstrating the many ways in which Northern Telephone Cooperative, Inc. (Northern) has worked to develop an effective exchange of information with the Blackfeet Tribe with the common goal of maintaining the deployment and improvement of communications services across the portion of the Blackfeet Reservation that is in Northern's service area.

The following map shows the location of the Blackfeet Reservation.



Northern serves approximately eleven hundred (1,100) customers, all of which have access to broadband over either fiber or DSL today. Northern's customers are scattered across approximately thirty-one hundred (3,100) square miles in north central Montana along the US/Canadian border.

Northern's service area includes the northeastern-most portion of the Blackfeet Reservation. The portion of the Blackfeet Reservation that is in Northern's service area is comprised of very sparsely populated farming and range lands, much of which contain no inhabitants.

While the entire Blackfeet Reservation encompasses approximately two thousand three hundred forty-four (2,344) square miles, the portion of the reservation that is inside Northern's service area is approximately seven hundred fifty-seven (757) square miles. Please refer to the map attached to this narrative where the Blackfeet Reservation is comprised of the areas shaded blue and pink. The area shaded in pink is the portion of the Reservation served by Northern.

Of the reservation's total population of approximately 10,000 people, less than three hundred (300) are located in Northern's service area. **There are no towns or tribal anchor institutions in the portion of the reservation served by Northern.**

For many years, all of Northern's customers, including those on the Blackfeet Reservation, have had access to copper-based DSL and the ability to access the Internet at speeds of at least 1 mbps, and in many cases, up to, and even exceeding 4 mbps. However, bandwidth demands are rapidly increasing to levels that may eventually exhaust DSL's technological capacity.

A few years ago, in light of growing bandwidth demands, the limitations of copper technologies, and potential problems associated with some of its aging copper plant, Northern began work to replace its copper loops with high-capacity fiber optic loops. This technology is known as "fiber-to-the-home" or FTTH. FTTH will enable Northern to provide a very large, and scalable, broadband "pipe" to each home and business it serves. The project also involves the installation of new electronics across Northern's network and new equipment at each customer location.

Northern has served customers on the Blackfeet Reservation for decades and some of Northern's first FTTH customers were located on the reservation. In spite of limited, and increasingly uncertain financial resources, and the short construction season in northern Montana, Northern's FTTH project is still expected to be substantially completed within the next 8 years or so, both on the reservation and off. By the end of the 2016 construction season, of the approximately 100 customer locations served by Northern Telephone on the Blackfeet Reservation, all but approximately 30 will be served via FTTH.

Northern has always endeavored to maintain, and will continue to maintain a tradition of meaningful engagement with the Blackfeet Tribal government. We have worked closely with the Blackfeet Tribal Business Council and share the understanding of the need to deploy infrastructure that can meet customer needs not only now, but into the future as well. The Tribal Business Council unanimously passed a resolution in support of Northern's telecommunications infrastructure projects on the reservation. A copy of the resolution is attached along with a copy of Northern's Business Permit granted by the Blackfeet Tribe.

Northern is aware of and sensitive to the unique challenges of providing service across tribal lands. Accordingly we employ the services of a company called Compton Signatures (see: <http://www.comptonsignatures.com/>). Compton Signatures (Compton), which is owned by Patricia Compton, a member of the Blackfeet Tribe, is a "Certified Indian Business" that is located in Browning, Montana, in the heart of the Blackfeet Indian Reservation.

Compton has a professional staff with extensive knowledge and experience in tribal land trust and related issues. They use their knowledge and experience to help bridge any cultural

differences with a blend of integrity and communication. They serve as a valuable liaison to the Blackfeet Tribe creating a cohesive bond to assist Northern in determining the criteria needed to complete its projects consistent with Blackfeet culture and in compliance with Blackfeet Tribal regulations.

Some of the many ways Compton Signatures assists Northern Telephone include: helping to ensure compliance with Tribal rights-of-way processes; land use permitting; facilities siting; environmental and cultural review processes; and, Tribal business and licensing requirements.

Northern's goal is to serve all of its customers, both on and off the reservation with state-of-the-art FTTH technology. Northern recognizes the cultural sensitivities and other unique aspects associated with building and maintaining telecommunications infrastructure and providing services on Tribal lands. Northern will endeavor to continue to develop and maintain an effective exchange of information with the Blackfeet Tribal government and with the Blackfeet people in general.

Northern Telephone recently was invited by Montana Senator Jon Tester to participate in a Tribal Telecommunications Roundtable. The Roundtable took place on June 1, 2016 and brought both tribes and telecommunications carriers together to discuss challenges related to providing broadband in tribal communities.



Blackfoot Reservation



NTC Serving Area



NTC Area Serving the Blackfoot Reservation

Area of NTC serving the Blackfoot Reservation

| | | |
|--------------------------|------------------------|-------------------------|
| Elbridge Exchange: | 16.00 sq miles | 10,629.17 acres |
| North Cut Bank Exchange: | 740.00 sq miles | 474,171.69 acres |
| Total | 756.00 sq miles | 484,800.86 acres |

| DATE | | REVISION | | NORTHERN TELEPHONE EXCHANGES BLACKFOOT RESERVATION LANDS SERVED BY NTC NORTHERN TELEPHONE COOP., INC. SUNBURST, MONTANA | Detail Map |
|-----------------------|-----------------|----------------|------|---|------------|
| DATE | BY | DESCRIPTION | DATE | | |
| 5/5/13 | Dusty Blackfoot | Serving | JTB | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| DESIGNED AND ASSIGNED | | 321 4th Street | | SUNBURST, MONTANA | |
| DATE | BY | DATE | BY | DATE | BY |
| 5/5/13 | BAS | OCT '02 | NTC | NTC | NTS |

Nov 5 1996

BLACKFEET NATION

EXECUTIVE COMMITTEE

EARL OLD PERSON, CHAIRMAN
BERNARD ST. GODDARD, VICE-CHAIRMAN
ROLAND KENNERLY, SECRETARY
ELAINE GUARDIPEE, TREASURER

P.O. BOX 850
BROWNING, MONTANA 59417

(406) 338-7179
FAX 338-7530

BLACKFEET TRIBAL BUSINESS COUNCIL

EARL OLD PERSON
BERNARD ST. GODDARD
ROLAND KENNERLY
MARLENE BEAR-WALTER
TED WILLIAMSON
ARCHIE ST. GODDARD
JIMMY ST. GODDARD
GABE GRANT
CARL KIPP

RESOLUTION

NUMBER: 30-97

- WHEREAS, The Blackfeet Tribal Business Council is the duly constituted governing body within the exterior boundaries of the Blackfeet Indian Reservation; and
- WHEREAS, The Blackfeet Tribal Business Council has been organized to represent, develop, protect and advance the views, interests, education and resources of the members of the Blackfeet Indian Reservation; and
- WHEREAS, Pursuant to Article VI, Powers of the Council, Section 1(c), of the Blackfeet Constitution and By Laws of the Blackfeet Tribe the Blackfeet Tribal Business Council is vested with the power to prevent the sale, disposition, lease or encumbrance of tribal lands, interests in lands or other tribal assets, without the consent of the tribe; and
- WHEREAS, Pursuant to Article VII, Land, Section 1, of the Blackfeet Constitution and By Laws of the Blackfeet Tribe the Blackfeet Tribal Business Council is vested with the power to recognize under existing laws such lands may be condemned for public purposes, such as roads, public buildings, or other public improvements, upon payment of adequate compensation, by any agency of the State of Montana or of the Federal Government, or by the tribe itself; and
- WHEREAS, Pursuant to 5. Corporate Powers, of the Corporate Charter of the Blackfeet Tribe of the Blackfeet Indian Reservation Montana, (j) To exercise such further incidental powers, not inconsistent with law, as may be necessary to the conduct of corporate business; and
- WHEREAS, Northern Telephone Cooperative, Inc., is requesting to extend its telephone service lines to individuals residing on the Blackfeet Reservation, so as to provide telephone service to consumers requesting this service; and

BLACKFEET TRIBAL RESOLUTION NUMBER: 30-97

PAGE 2

WHEREAS, The Blackfeet Tribal Business Council has been organized to improve the living standard of the people of the Blackfeet Indian Reservation; and

WHEREAS, Northern Telephone Cooperative is requesting this Comprehensive service line permit to build, construct and maintain telephone service line systems over, across and upon Blackfeet Tribal land so as to provide telephone service to inhabitants thereof, with payment waived; and

THEREFORE BE IT RESOLVED, That permission is hereby granted to Northern Telephone Cooperative, Inc., to survey, place, construct, operate, maintain, repair, relocate or replace a telephone service line system including all structures necessary or advisable for the construction, operation and maintenance of said lines over and across Tribal lands, with payment waived; and

BE IT FURTHER RESOLVED, That the Superintendent of the Bureau Of Indian Affairs at the Blackfeet Agency is hereby instructed to approve this comprehensive telephone service line permit granted to Northern Telephone Cooperative, Inc., of Sunburst, Montana on land owned by the Blackfeet Tribe, subject of application and approval of the Bureau of Indian Affairs under the terms and provisions of the Act of February 5, 1948 (62 Stat. 17-18), and Departmental Regulations 25 CFR 169; and

BE IT FURTHER RESOLVED, That the Superintendent for the Bureau of Indian Affairs, Blackfeet Agency, is instructed to execute such documents as may be necessary to complete the granting of this comprehensive telephone service line to Northern Telephone Cooperative, Inc.; and


BE IT FINALLY RESOLVED, That the Chairman and the Secretary of the Blackfeet Tribal Business Council, acting in behalf of the Blackfeet Tribe, are hereby authorized and instructed to sign such documents as may be necessary to finalize said grant of a comprehensive telephone service line permit to Northern Telephone Cooperative, Inc.

BLACKFEET TRIBAL RESOLUTION NUMBER: 30-97

PAGE 3

ATTEST:

THE BLACKFEET TRIBE OF THE
BLACKFEET INDIAN RESERVATION



ROLAND KENNERLY, Secretary


EARL OLD PERSON, Chairman

CERTIFICATION

I hereby certify that the foregoing Resolution was adopted by the Land Committee of the Blackfeet Tribe during a meeting held on 03-19-96 and approved by the Blackfeet Tribal Business Council during a SPECIAL Session assembled for Business on JUNE 12, 1996 with SEVEN (7) Members present to constitute a quorum and by a vote of SEVEN (7) Members For and ZERO (0) Members Opposed.

(CORPORATE SEAL)


ROLAND KENNERLY, SECRETARY
BLACKFEET TRIBAL BUSINESS
COUNCIL



THE BLACKFEET TRIBE

#535

Certifies that

BUSINESS NAME:

Northern Telephone Cooperative, Inc.
Mike Sheard
P.O. Box 190
Sunburst, Montana 59482

TYPE OF ACTIVITY: Provider of Telephone and Internet
Services

THIS PERMIT EXPIRES ON: DECEMBER 31, 2016

HAVING MADE APPLICATION FOR A BUSINESS ACTIVITY AND ADHERED TO ALL LAWS AND PROCEDURES REQUIRED BY THE BLACKFEET TRIBE, SAID BUSINESS IS HEREBY AUTHORIZED TO CONDUCT OR OPERATE A BUSINESS ACTIVITY WITHIN THE BOUNDARIES OF THE BLACKFEET INDIAN RESERVATION. THIS PERMIT MUST BE DISPLAYED IN FULL VIEW OF THE PUBLIC WHILE CONDUCTING OR OPERATING A BUSINESS ACTIVITY.

DESCRIPTION OF VOICE SERVICES RATE COMPARABILITY

In the *USF/ICC Transformation Order*, the Commission determined that ETCs must offer voice telephony service at rates that are reasonably comparable to urban rates and it adopted a presumption that a voice rate is within a reasonable range if it falls within two standard deviations above the national average. The Commission directed the Wireline Competition Bureau and the Wireless Telecommunications bureau to conduct a survey of residential urban rates.

The rate survey was conducted as directed, and on April 5, 2016, Public Notice DA 16-362 was released announcing the survey results. According to information in the Public Notice, the 2016 rate floor is \$21.93, and the reasonable comparability benchmark is \$41.07.

As of June 1, 2016, Northern Telephone Cooperative, Inc.'s (Northern's) local end user rate (voice rate) was \$18/month. Therefore, as of June 1, 2016, Northern's local rate was not less than \$18/month, or more than the \$41.07 reasonable comparability benchmark.

DESCRIPTION OF BROADBAND SERVICES RATE COMPARABILITY

In the *USF/ICC Transformation Order*, the Commission determined that recipients of high-cost and/or Connect America Fund support that are subject to broadband performance obligations are required to offer broadband service at rates that are at or below the relevant reasonable comparability benchmark. The Commission directed the Wireline Competition Bureau (WCB) to conduct an annual survey of urban broadband rates.

The rate survey was conducted as directed, and on April 5, 2016, Public Notice DA 16-362 was released announcing the survey results. Under the approach adopted, the reasonable comparability broadband benchmark varies, depending upon the supported service's download and upload bandwidths and usage allowance. The WCB posted an online tool in which providers can plug the relevant variables to determine the benchmark for specific service characteristics.

As of June 1, 2016, Northern Telephone Cooperative, Inc.'s (Northern's) broadband rates were below the benchmark rates as calculated by the WCB's online tool. Furthermore, since Northern does not impose a usage cap, Northern's broadband service is provided with usage allowances reasonably comparable to those available through comparable offerings in urban areas.

Response to Line 1210
Northern Telephone Cooperative, Inc.
Study Area 482248

Northern Telephone's subscribers on a limited income may be eligible to participate in Lifeline. Subscribers must prove their eligibility to enroll and the program is limited to one benefit per household. Northern Telephone's Lifeline participants receive a discount on the price of Northern's flat-rated (unlimited) local Residential service. These discounts are currently set at \$9.25 per month.

Toll calls made by Lifeline participants are priced at the standard rates offered by the various toll carriers. For example, customers that use Northern Telephone as their toll carrier are charged \$.10/minute for interstate and intrastate toll calls. Lifeline customers may subscribe to Northern's optional Toll Denial service at no monthly cost.

To qualify for Lifeline, subscribers must either have an income that is at or below 135% of the Federal Poverty Guidelines, or participate in any of the following programs:

- *Supplemental Nutrition Assistance Program (SNAP)
- *Medicaid
- *Temporary Assistance for Needy Families (TANF)
- *National School Lunch Program's free lunch program
- *Federal Public Housing Assistance or Section 8
- *Low-income Home Energy Assistance Program (LIHEAP)
- *Supplemental Security Income (SSI)

Additional benefits, including Tribal Lifeline and Tribal Lands Link Up may be available to qualifying subscribers that reside on the portion of the Blackfeet Reservation that is served by Northern Telephone. Qualification is based on income or participation in one of the following programs:

- *Head Start (only if eligible through income)
- *Bureau of Indian Affairs (BIA) General Assistance
- *Tribally administered Temporary Assistance for Needy Families (TTANF)
- *Food Distribution Program on Indian Reservations (FDPIR)

Tribal Lifeline provides a monthly discount of up to \$34.25 off of the cost of Northern's local Residential service. This discount includes the standard \$9.25 Lifeline benefit plus up to an additional \$25.

Tribal Lands Link-Up enables eligible new customers to receive a discount of up to \$100 off the customary charges for commencing phone service with Northern Telephone.

Northern Telephone's Low Income outreach includes: mailers (at least once per year); posters placed in strategic public places; newspaper notices and Northern's web site.

Response to Line 3010b
Northern Telephone Cooperative, Inc.
Study Area 482248

PROGRESS REPORT ON 5-YEAR PLAN – MILESTONE CERTIFICATION

Northern Telephone Cooperative, Inc. (Northern) hereby certifies that it has, and is, taking reasonable steps to provide upon reasonable request broadband service that meets the Commission's § 54.308*(a), and that requests for such services were/are met within a reasonable amount of time.


Signature

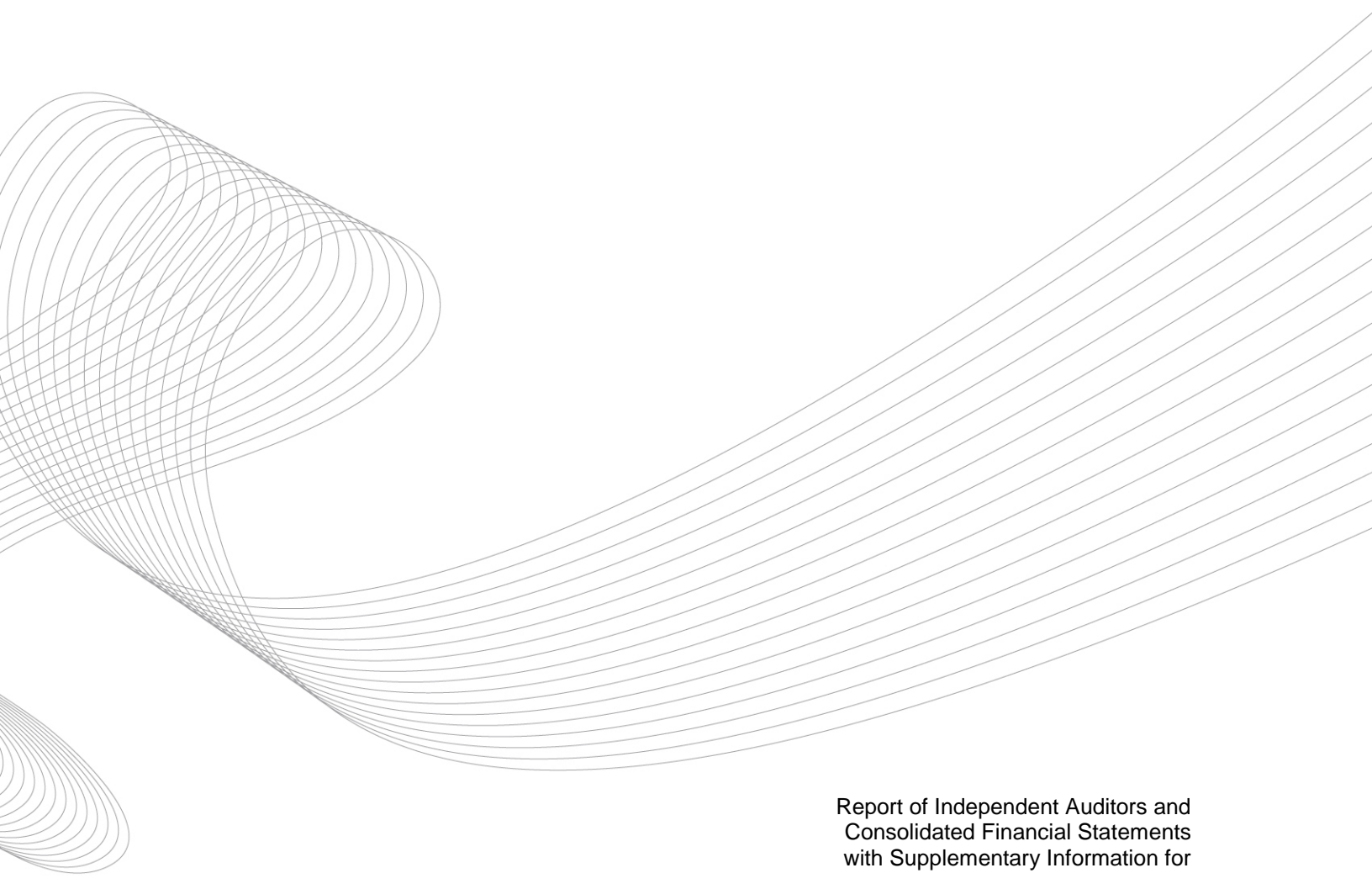

Printed Name


Title

Response to Line 3012
Northern Telephone Cooperative, Inc.
Study Area 482248

PROGRESS REPORT ON 5-YEAR PLAN – COMMUNITY ANCHOR INSTITUTIONS

All Community Anchor Institutions (CAIs) located within the area served by Northern Telephone Cooperative, Inc. have access to broadband service. No new CAIs were newly provided with access to broadband service in 2015.



Report of Independent Auditors and
Consolidated Financial Statements
with Supplementary Information for

**Northern Telephone
Cooperative, Inc.**

December 31, 2015 and 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Northern Telephone Cooperative, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Northern Telephone Cooperative, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

REPORT OF INDEPENDENT AUDITORS (continued)

Auditor's Responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Telephone Cooperative, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
February 6, 2016

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

| | December 31, | |
|---|----------------------|----------------------|
| | 2015 | 2014 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,193,398 | \$ 927,238 |
| Investment in certificates of deposit | 199,000 | 198,000 |
| Telecommunications accounts receivable | 169,198 | 158,187 |
| Settlements and access accounts receivable, net of allowance for uncollectible accounts of 2015 - \$165,568; 2014- \$-0- | 106,589 | 200,316 |
| Other accounts receivable | 3,333 | 2,978 |
| Income tax refund receivable | 37,352 | 32,246 |
| Notes receivable, current portion | - | 16,039 |
| Material and supplies | 457,807 | 434,441 |
| Other current assets | 21,270 | 19,639 |
| | <u>2,187,947</u> | <u>1,989,084</u> |
| NONCURRENT ASSETS | | |
| Investment in affiliates | 1,049,920 | 979,890 |
| Investment in nonaffiliates | 667,451 | 665,244 |
| Notes receivable, long-term portion | - | 7,611 |
| Investment in certificates of deposit | 589,000 | 590,000 |
| | <u>2,306,371</u> | <u>2,242,745</u> |
| PROPERTY, PLANT, AND EQUIPMENT | | |
| Regulated telecommunications plant in service | 30,884,764 | 28,936,519 |
| Regulated telecommunications plant under construction | 736,721 | 1,190,447 |
| Nonregulated telecommunications plant in service | 611,978 | 667,181 |
| | <u>32,233,463</u> | <u>30,794,147</u> |
| Less accumulated depreciation | <u>21,813,577</u> | <u>20,920,888</u> |
| | <u>10,419,886</u> | <u>9,873,259</u> |
| | <u>\$ 14,914,204</u> | <u>\$ 14,105,088</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

| | December 31, | |
|---|-----------------------------|-----------------------------|
| | 2015 | 2014 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 29,030 | \$ 28,510 |
| Advance billing | 119,520 | 113,562 |
| Other accrued taxes | 117,903 | 101,507 |
| Other accrued liabilities | 150,628 | 147,853 |
| | <u>417,081</u> | <u>391,432</u> |
| OTHER LIABILITIES AND DEFERRED CREDITS | | |
| Other deferred credits | 301,899 | 301,953 |
| Deferred income taxes | 151,080 | 149,816 |
| | <u>452,979</u> | <u>451,769</u> |
| MEMBERS' EQUITY | | |
| Memberships and other capital | 8,125 | 8,125 |
| Accumulated other comprehensive income | 224,296 | 226,716 |
| Retained margins | 13,811,723 | 13,027,046 |
| | <u>14,044,144</u> | <u>13,261,887</u> |
| | <u><u>\$ 14,914,204</u></u> | <u><u>\$ 14,105,088</u></u> |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31, | |
|-------------------------------|--------------------------|-------------------|
| | 2015 | 2014 |
| Operating revenues | | |
| Wireline | \$ 3,513,291 | \$ 3,320,742 |
| Internet | 498,836 | 466,576 |
| Fiber lease | 209,023 | 205,220 |
| Miscellaneous | 148,053 | 234,805 |
| | <u>4,369,203</u> | <u>4,227,343</u> |
| Operating expenses | | |
| Plant specific operations | 596,812 | 690,022 |
| Plant nonspecific operations | 193,041 | 178,570 |
| Depreciation | 1,262,101 | 1,263,933 |
| Customer operations | 245,580 | 249,067 |
| Corporate operations | 596,425 | 581,243 |
| Other operating taxes | 166,993 | 155,275 |
| Nonregulated | 687,378 | 557,742 |
| | <u>3,748,330</u> | <u>3,675,852</u> |
| Operating margins | <u>620,873</u> | <u>551,491</u> |
| Nonoperating income (expense) | | |
| Interest and dividend income | 330,070 | 288,521 |
| Loss on disposal of assets | (20,716) | - |
| Other nonoperating expense | (3,151) | (3,143) |
| Income from affiliate | 70,030 | 70,089 |
| | <u>376,233</u> | <u>355,467</u> |
| Margins before income taxes | 997,106 | 906,958 |
| Income tax expense | <u>(142,631)</u> | <u>(150,233)</u> |
| Net margins | <u>\$ 854,475</u> | <u>\$ 756,725</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31, | |
|--|--------------------------|------------|
| | 2015 | 2014 |
| Net margins | \$ 854,475 | \$ 756,725 |
| Other comprehensive loss | | |
| Postretirement healthcare benefits | | |
| Net gain arising during the period | 9,249 | 7,285 |
| Amortization of net gain included in net periodic benefit cost | (11,669) | (12,240) |
| Other comprehensive loss | (2,420) | (4,955) |
| Comprehensive income | \$ 852,055 | \$ 751,770 |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

| | Memberships and Other Capital | Retained Margins Unallocated | Retained Margins Allocated | Accumulated Other Comprehensive Income | Total Equity |
|------------------------------|-------------------------------------|------------------------------------|----------------------------------|---|----------------------|
| Balance, December 31, 2013 | \$ 8,125 | \$ 6,277,313 | \$ 6,129,122 | \$ 231,671 | \$ 12,646,231 |
| 2014 net margins | - | 756,725 | - | - | 756,725 |
| Excise tax patronage capital | - | - | 2,885 | - | 2,885 |
| Other | - | (74,084) | - | - | (74,084) |
| Patronage capital retired | - | - | (64,915) | - | (64,915) |
| Allocate 2013 patronage | - | (442,080) | 442,080 | - | - |
| Other comprehensive loss | - | - | - | (4,955) | (4,955) |
| Balance, December 31, 2014 | 8,125 | 6,517,874 | 6,509,172 | 226,716 | 13,261,887 |
| 2015 net margins | - | 854,475 | - | - | 854,475 |
| Excise tax patronage capital | - | - | 1,443 | - | 1,443 |
| Patronage capital retired | - | - | (71,241) | - | (71,241) |
| Allocate 2014 patronage | - | (325,410) | 325,410 | - | - |
| Other comprehensive loss | - | - | - | (2,420) | (2,420) |
| Balance, December 31, 2015 | <u>\$ 8,125</u> | <u>\$ 7,046,939</u> | <u>\$ 6,764,784</u> | <u>\$ 224,296</u> | <u>\$ 14,044,144</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|--|--------------------------|--------------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net margins | \$ 854,475 | \$ 756,725 |
| Adjustments to reconcile net margins to net cash from operating activities | | |
| Regulated depreciation | 1,258,920 | 1,263,933 |
| Nonregulated depreciation | 4,724 | - |
| Income from affiliate | (70,030) | (70,089) |
| Loss on disposal of assets | 20,716 | - |
| Noncash patronage allocations | (3,396) | (2,722) |
| Deferred income taxes | 1,264 | (8,326) |
| Allowance for doubtful accounts | 165,568 | - |
| Changes in assets and liabilities | | |
| Receivables | (83,207) | (4,646) |
| Income taxes | (5,106) | (29,843) |
| Material and supplies | (23,366) | 90,312 |
| Other current assets | (1,631) | (731) |
| Accounts payable and accrued expenses | 19,691 | (420) |
| Advance billings and customer deposits | 5,958 | 15,718 |
| Other liabilities | (2,474) | 25,902 |
| Net cash from operating activities | <u>2,142,106</u> | <u>2,035,813</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of regulated property, plant, and equipment | (1,796,122) | (1,715,363) |
| Acquisition of nonregulated property, plant, and equipment | (46,305) | - |
| Proceeds from sale of property, plant, and equipment | 11,440 | - |
| Purchase of investments | (198,000) | (100,000) |
| Payments on notes receivable | 23,650 | 74,377 |
| Proceeds from sale of investments | <u>199,189</u> | <u>101,643</u> |
| Net cash from investing activities | <u>(1,806,148)</u> | <u>(1,639,343)</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|--|--------------------------|-------------------|
| | 2015 | 2014 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Patronage capital retired | \$ (71,241) | \$ (64,915) |
| Excise tax refund | 1,443 | 2,885 |
| Net cash from financing activities | (69,798) | (62,030) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 266,160 | 334,440 |
| CASH AND CASH EQUIVALENTS at beginning of year | 927,238 | 592,798 |
| CASH AND CASH EQUIVALENTS at end of year | <u>\$ 1,193,398</u> | <u>\$ 927,238</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | | |
| Cash paid during the year for | | |
| Income taxes | <u>\$ 146,477</u> | <u>\$ 185,500</u> |
| NONCASH FINANCING ACTIVITIES | | |
| Postretirement benefit obligation | <u>\$ (2,420)</u> | <u>\$ (4,955)</u> |
| Advance billing transferred to equity | <u>\$ -</u> | <u>\$ 74,084</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Description of entity – Northern Telephone Cooperative, Inc. (Cooperative) and its subsidiary are located in northern Montana and provide telecommunication services to approximately 1,400 subscribers. Telecommunication services include local, long distance, Internet, leased fiber optic lines, and other telecommunication services.

Principles of consolidation – The Cooperative, the parent corporation, owns 100% of Northern Communications, Inc. (Norcom). The subsidiary is included in the accompanying consolidated financial statements. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting policies – The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting prescribed by the Federal Communications Commission (FCC).

Accounting estimates – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense and interstate access revenue settlements.

Cash and cash equivalents – For purposes of the statements of cash flows, the Cooperative considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Concentration of credit risk – At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. A possible loss exists for those amounts in excess of \$250,000. The Cooperative minimizes this risk by utilizing numerous financial institutions for deposits of cash funds.

Investments in certificates of deposit – These investments consist of certificates of deposit purchased at face value with maturities between one and five years. There is no material difference between the cost of these investments and their fair market value.

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Valuation of accounts receivable – Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Cooperative reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers and carriers are due 30 days after issuance of the subscriber bill. Accounts are considered delinquent after the bills have been outstanding for greater than 90 days. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on the assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Material and supplies – Material and supplies consist of construction materials, handsets and accessories held for sale, and other equipment, which are valued at the lower of average cost or market.

Investments in affiliates – The Cooperative accounts for its investments in limited liability companies by the equity method of accounting under which the Cooperative's share of the net income of the affiliates is recognized as income in the Cooperative's income statement and added or subtracted to the respective investment accounts. Under the equity method of accounts, dividends or returns of capital reduce the investment balance.

Investment in nonaffiliates – Investments consist primarily of assigned patronage from other cooperatives accounted for on the equity method and nonmarketable stock of telephone industry corporations stated at cost.

Property, plant, and equipment – Property, plant, and equipment are stated at cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses.

Property, plant, and equipment is depreciated using straight-line methods over their estimated useful lives. In accordance with composite group depreciation methodology, when a portion of the Cooperative's depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

Income taxes – The Cooperative is taxable for federal and exempt for state income tax purposes. As a taxable cooperative, taxable income consists of margins earned from nonpatronage sources. Margins earned from patronage are not taxable to the extent margins are allocated to patrons in the form of capital credits. Norcom is a taxable entity for federal and state income tax purposes.

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Income taxes (continued) – Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for taxable temporary differences, and deferred tax assets are recognized for deductible temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to book depreciation in excess of tax. Deferred tax liabilities relate primarily to differences in investment basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Cooperative records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2015 and 2014, the Cooperative had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

Members' equity – The Cooperative assigns earned patronage margin annually to its patrons based on the bylaws of the Cooperative and related Board policies. Total patronage margins are computed on a tax basis and consist of Cooperative patronage revenues, reduced by related operating and interest expenses. The allocation is made to individual patrons based on the amount of Cooperative services billed to each patron for that year. The assignment to patron accounts is made in the subsequent year. Permanent equity is not assigned to members and consists primarily of nonpatronage margins.

A portion of the total assigned patronage capital is distributed to members as a general retirement each year. The total amount returned is determined by the Board of Directors and the vintage year from which the retirements will be applied. The Cooperative's policy is to retire the earliest unretired year first. All assigned margins prior to 2003 have been retired. Additionally, the Board of Directors approves early retirement requests from the estates of deceased members and defunct businesses. These retirements are not discounted.

Comprehensive income – Comprehensive income is defined as the change in equity of a business during a period as a result of net margins and other gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net margins. Unrecognized actuarial adjustments in postretirement benefit plans are the items included in other comprehensive income.

Revenue recognition – Monthly service fees derived from local wireline and Internet are billed one month in advance, but recognized in the month that service is provided. Fiber optic line leases are billed in arrears; however, the revenue is recognized in the month the service is provided.

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue recognition (continued) – Usage sensitive revenues such as access (revenues earned for originating/terminating long distance calls) and long distance are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

Interstate access revenues also include settlements based on the Cooperative's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year end, and therefore, the related revenues are recorded on the books based on an estimate of the Cooperative's costs, NECA pool earnings and on other assumptions related to information utilized in the preparation of the Cooperative's cost study. The studies are subject to a 24-month pool earnings adjustment period and review of the study by NECA. There was an insignificant revenue impact in 2015 and 2014 for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate that 2015 and 2014 recorded revenues will require significant adjustments in future years.

Internet revenues are derived from providing end user customers connection to the public Internet. Additionally, interstate access revenues include settlements from NECA that compensate the Cooperative for the DSL transport related to Internet traffic.

The Cooperative's wireline universal service support revenue is intended to compensate the Cooperative for the high cost of providing rural telephone service. Universal service support revenue includes funds received for High Cost Loop Support (HCLS), Interstate Common Line Support (ICLS), Connect America Fund (CAF), and other miscellaneous programs. HCLS and ICLS are based on the Cooperative's current relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced 5% each year in determining CAF support.

Regulation – The Cooperative's services are subject to rate regulation as follows:

- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA. The FCC has also assumed preemptive authority to regulate intrastate telecommunications services including intrastate access rates.
- Universal service revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

Other sources of revenues are not rate regulated, and include local telephone, Internet, long distance, equipment sales, directory, rents, fiber lease, and other incidental services.

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Regulation (continued) – Nonregulated expenses and nonregulated plant are directly attributable to nonregulated services such as Internet, equipment sales, directory, rents, and other incidental services. All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlement, universal service support, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

Future regulatory actions may have a significant impact on the Cooperative's future operations and financial position. Management is monitoring the impacts of any reform on an on-going basis.

Concentration of market risk – In 2015 and 2014, the Cooperative received \$1,768,240 and \$1,544,157, or 41% and 37%, respectively, of its revenue from the Federal USF.

Advertising expenses – The Cooperative expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2015 and 2014, were \$33,096 and \$31,256, respectively.

Taxes imposed by governmental authorities – The Cooperative's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Cooperative. These specific taxes are charged to and collected from the Cooperative's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Cooperative recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Cooperative's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Cooperative has evaluated subsequent events through February 6, 2016, which is the date the financial statements are available to be issued.

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Investments in Affiliates

Investments in affiliated organizations consist of iConnect Montana, LLC (iConnect) and Montana Independent Telecommunications Systems, LLC (MITS). iConnect was formed to build fiber connection hubs throughout the state of Montana. Its primary function is to facilitate collocation between telecommunications providers. MITS is a professional service organization formed to support Montana's rural telecommunications industry.

The carrying value of the equity method investments are accounted for as follows:

| | <u>iConnect</u> | <u>MITS</u> | <u>Total</u> |
|-------------------------------------|---------------------|------------------|---------------------|
| Cash investment from previous years | \$ 700,271 | \$ 14,725 | \$ 714,996 |
| Prior years' accumulated net income | 169,658 | 25,147 | 194,805 |
| 2014 net income (loss) | <u>77,704</u> | <u>(7,615)</u> | <u>70,089</u> |
| Investment at December 31, 2014 | 947,633 | 32,257 | 979,890 |
| 2015 net income (loss) | <u>82,647</u> | <u>(12,617)</u> | <u>70,030</u> |
| Investment at December 31, 2015 | <u>\$ 1,030,280</u> | <u>\$ 19,640</u> | <u>\$ 1,049,920</u> |

The assets, liabilities, and operations of the Cooperative's investment in iConnect are as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------|---------------------|---------------------|
| Assets | <u>\$ 8,941,034</u> | <u>\$ 8,856,103</u> |
| Liabilities | <u>\$ 2,661,716</u> | <u>\$ 3,125,723</u> |
| Equity | <u>\$ 6,279,318</u> | <u>\$ 5,730,380</u> |
| Operating revenues | \$ 3,884,972 | \$ 3,652,021 |
| Operating expenses | <u>3,344,227</u> | <u>3,110,207</u> |
| Net income | <u>\$ 540,745</u> | <u>\$ 541,814</u> |

iConnect has borrowed funds from First Interstate Bank. Conditional to the borrowing, iConnect was required to obtain loan guarantees from its investors. The Cooperative has guaranteed \$32,580 of iConnect's debt.

NORTHERN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Investments in Nonaffiliates

Investments in associated organizations are carried at the lesser of cost or fair market value and consist of the following:

| | <u>2015</u> | <u>2014</u> |
|------------------------------|--------------------------|--------------------------|
| Equity in other cooperatives | \$ 61,895 | \$ 59,688 |
| Vision Net, Inc. | 601,484 | 601,484 |
| Other | <u>4,072</u> | <u>4,072</u> |
| | <u><u>\$ 667,451</u></u> | <u><u>\$ 665,244</u></u> |

Vision Net, Inc. provides advanced voice, data, and video services and is owned by Montana's independent telephone companies allowing them to interconnect a digital fiber network serving urban and rural communities throughout the state. The investment is maintained on the cost method of accounting and has no readily determinable market value. No events or significant changes have been identified that would have an adverse effect on the carrying values.

Note 4 – Notes Receivable

Notes receivable consisted of the following at December 31:

| | <u>2015</u> | <u>2014</u> |
|----------------------|--------------------|------------------------|
| iConnect | \$ - | \$ 23,650 |
| Less current portion | <u>-</u> | <u>16,039</u> |
| | <u><u>\$ -</u></u> | <u><u>\$ 7,611</u></u> |

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Property, Plant, and Equipment

Telecommunications plant balances together with accumulated depreciation balances consist of the following at December 31:

| | <u>Depreciable Life</u> | <u>Plant Account</u> | <u>Accumulated Depreciation</u> | <u>2015 Net Balance</u> | <u>2014 Net Balance</u> |
|--------------------------|-----------------------------|----------------------|-------------------------------------|-----------------------------|-----------------------------|
| Regulated | | | | | |
| General support assets | 5 - 35 years | \$ 5,443,981 | \$ 3,674,988 | \$ 1,768,993 | \$ 1,833,442 |
| Central office assets | 5 - 25 years | 6,871,645 | 4,945,812 | 1,925,833 | 2,086,419 |
| Cable assets | 13 years | 18,569,138 | 12,664,790 | 5,904,348 | 4,699,824 |
| Plant under construction | n/a | 736,721 | - | 736,721 | 1,190,447 |
| | | <u>31,621,485</u> | <u>21,285,590</u> | <u>10,335,895</u> | <u>9,810,132</u> |
| Nonregulated | | | | | |
| Cable assets | 15 years | 289,202 | 289,202 | - | - |
| Central office assets | 5 - 7 years | 240,883 | 196,121 | 44,762 | - |
| Other | 2 - 10 years | 81,893 | 42,664 | 39,229 | 63,127 |
| | | <u>611,978</u> | <u>527,987</u> | <u>83,991</u> | <u>63,127</u> |
| | | <u>\$ 32,233,463</u> | <u>\$ 21,813,577</u> | <u>\$ 10,419,886</u> | <u>\$ 9,873,259</u> |

Note 6 – Income Taxes

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before taxes due to the effects of state taxes (net of federal benefit), Cooperative patronage exclusions, nondeductible items, and nontaxable items. Additionally, due to the patronage exclusion, no deferred tax provision is recognized for the defined postretirement benefit plan amounts included in other comprehensive income.

NORTHERN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Income Taxes (continued)

Components of provision for income tax expense at December 31:

| | <u>2015</u> | <u>2014</u> |
|-------------------|----------------------------|----------------------------|
| Current | | |
| Federal | \$ (117,590) | \$ (131,674) |
| State | (23,777) | (26,885) |
| Deferred | | |
| Federal and state | <u>(1,264)</u> | <u>8,326</u> |
| | <u><u>\$ (142,631)</u></u> | <u><u>\$ (150,233)</u></u> |

This income tax expense is allocated to income as follows at December 31:

| | <u>2015</u> | <u>2014</u> |
|--------------|----------------------------|----------------------------|
| Operating | \$ (905) | \$ (211) |
| Nonoperating | (5,001) | (6,493) |
| Nonregulated | <u>(136,725)</u> | <u>(143,529)</u> |
| | <u><u>\$ (142,631)</u></u> | <u><u>\$ (150,233)</u></u> |

The components of the net deferred tax liability recorded in the accompanying consolidated balance sheets at December 31 are:

| | <u>2015</u> | <u>2014</u> |
|---|----------------------------|----------------------------|
| Deferred tax assets (liabilities) | | |
| Book investment carrying value greater than tax | \$ (156,580) | \$ (168,941) |
| Book depreciation greater than tax | <u>5,500</u> | <u>19,125</u> |
| | <u><u>\$ (151,080)</u></u> | <u><u>\$ (149,816)</u></u> |

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Deferred Credits

Deferred credits consist of the following at December 31:

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Postretirement health care plan liability | \$ 278,349 | \$ 269,753 |
| Scholarship liability | 23,550 | 32,200 |
| | <u>\$ 301,899</u> | <u>\$ 301,953</u> |

Note 8 – Retirement Plans

Defined benefit plans – The Cooperative participates in two multi-employer pension plans (Plans) with the National Telephone Cooperative Association that cover substantially all of its employees and are described below.

The risks of participating in multi-employer plans are different from single employer plans as follows: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the plan, the unfunded obligations of the Plan may be borne by the remaining participating employers, and (3) if the Cooperative chooses to stop participating in a Plan, the Cooperative may be required to pay a withdrawal liability.

The Cooperative's participation in multi-employer Plans is outlined in the table below. Unless otherwise noted, the information provided below is from the Plans' most recent Form 5500 filing, which covers the Plan years 2014 and 2013. At the date the financial statements were issued, Form 5500 was not available for the year ending 2015.

| Plan Name | Employer Identification Number/Plan Number | Pension Protection Act Zone Status | | Employer Contributions | | Company Contributions Greater than 5% of Total Plan Contributions | Funding Improvement/Rehabilitation Plan in Place | Surcharges Imposed | Expiration Date of Collective-Bargaining Agreements | Minimum Contributions Required in the Future |
|---|--|------------------------------------|---------------------|------------------------|------------|---|--|--------------------|---|--|
| | | 2014 | 2013 | 2015 | 2014 | | | | | |
| Retirement & Security Program for Employees of the National Telecommunications Cooperative Association and its Member Systems | 52-0741336/333 | At least 80% funded | At least 80% funded | \$ 147,566 | \$ 143,047 | No | No | Yes | N/A | No |

Substantially all employees of the Cooperative participate in the Plans. Employees are eligible to receive an annuity or lump-sum payment at retirement based on an average of prior years' compensation. The Cooperative makes quarterly contributions to the Plans based on each employee's compensation.

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Retirement Plans (continued)

Postretirement benefits – The Cooperative also sponsors a defined benefit postretirement health care plan (Plan) for retired employees who retire from the Cooperative prior to age 65. The Plan does not have any assets as future benefits will be paid by the Cooperative.

Obligations and funded status – The amount of benefit to be paid depends on a number of future events incorporated into a formula, including estimates of the average life of employees/survivors, years of service rendered, and future interest rates.

The accumulated benefit obligation represents the present value of all future benefits attributed to employee service earned through the measurement date and does not include changes in future compensation. For postretirement benefit plans, the benefit obligation is the accumulated benefit obligation.

The following table summarizes the benefit obligation, fair value of Plan assets, and the funded status at December 31:

| | <u>2015</u> | <u>2014</u> |
|---|----------------------------|----------------------------|
| Accumulated benefit obligation at end of year | \$ (292,317) | \$ (283,553) |
| Fair value of Plan assets at end of year | <u>-</u> | <u>-</u> |
| Funded status | <u><u>\$ (292,317)</u></u> | <u><u>\$ (283,553)</u></u> |

Amounts recognized in the balance sheets at December 31 consist of:

| | <u>2015</u> | <u>2014</u> |
|------------------------|--------------------------|--------------------------|
| Current liabilities | \$ 13,968 | \$ 13,800 |
| Noncurrent liabilities | <u>278,349</u> | <u>269,753</u> |
| Net amount recognized | <u><u>\$ 292,317</u></u> | <u><u>\$ 283,553</u></u> |

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Retirement Plans (continued)

Obligations and funded status (continued) – The following amounts are not yet reflected in the net periodic benefit cost and are included in accumulated other comprehensive income:

| | <u>2015</u> | <u>2014</u> |
|------------------|-------------------|-------------------|
| Accumulated gain | <u>\$ 224,296</u> | <u>\$ 226,716</u> |

The unrecognized gain is a result of the accumulated difference between the actuary's estimates based on actuarial principles and the Cooperative's actual experience with factors such as the length of employment and the discount rate for the Plan obligations.

The estimated net gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year is \$11,669.

Other Plan information – The following table provides the net periodic benefit cost at December 31:

| | <u>2015</u> | <u>2014</u> |
|---------------------------|------------------|------------------|
| Net periodic benefit cost | <u>\$ 16,820</u> | <u>\$ 16,347</u> |

The net periodic benefit cost is the amount recognized in the financial statements as the cost of the Plan for the year. Components of the net periodic benefit cost are service cost, interest cost, actual return on Plan assets, and amortization of unrecognized gains/losses. Net periodic benefit cost is allocated amongst each expense category and plant under construction based on labor.

The Cooperative does not expect to contribute to its postretirement health care plan in 2015. The Cooperative paid \$10,476 and \$10,350 in benefits in 2015 and 2014, respectively.

Expected future benefit payments, which reflect expected future service, as appropriate, are as follows:

| | |
|-----------------|-----------|
| 2016 | \$ 13,968 |
| 2017 | 10,002 |
| 2018 | 10,586 |
| 2019 | 11,105 |
| 2020 | 11,590 |
| Years 2021-2025 | 114,351 |

NORTHERN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Retirement Plans (continued)

Other Plan information (continued) – At December 31 the assumptions used to determine the benefit obligation are as follows:

| | <u>2015</u> | <u>2014</u> |
|---------------|-------------|-------------|
| Discount rate | <u>4.0%</u> | <u>4.5%</u> |

For measurement purposes for the year ended December 31, 2015, the per capita cost of health care benefits was assumed to be 10.0%, decreasing 0.5% per year to a level of 5.0%. A 1.0% increase to the premium inflation rate would increase the net periodic benefit cost to \$20,651 and the accrued benefit liability to \$313,987.

Note 9 – Comprehensive Income

Changes in accumulated other comprehensive income by component for the year ended December 31, 2015, were:

| | <u>Defined Benefit Pension Items</u> |
|--|--|
| Beginning balance | <u>\$ 226,716</u> |
| Other comprehensive income before reclassifications | 9,249 |
| Amounts reclassified from accumulated other comprehensive income | <u>(11,669)</u> |
| Net current period other comprehensive income | <u>(2,420)</u> |
| Ending balance | <u>\$ 224,296</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Comprehensive Income (continued)

The effect of reclassification out of accumulated other comprehensive income for the year ended December 31, 2015, were:

| <u>Details About Accumulated Other Comprehensive Income Components</u> | <u>Amounts Reclassified from Accumulated Other Comprehensive Income</u> | <u>Affected Line Item in the Statement of Income</u> |
|--|---|--|
| Amortization of defined benefit pension items | | |
| Actuarial gains (losses) | <u>\$ (11,669)</u> | (a) |

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost (see retirement plan footnote for additional details).

Note 10 – Operating Revenue

Wireline and miscellaneous revenues consist of the following:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------|---------------------|---------------------|
| Wireline | | |
| Customer | \$ 672,246 | \$ 655,313 |
| Intercarrier | | |
| Interstate | 594,806 | 590,865 |
| Intrastate | 477,999 | 530,407 |
| Universal service support - federal | <u>1,768,240</u> | <u>1,544,157</u> |
| Total wireline revenues | <u>\$ 3,513,291</u> | <u>\$ 3,320,742</u> |
| Miscellaneous | | |
| Equipment sales, net | \$ 9,140 | \$ 12,358 |
| Rent | 90,641 | 83,078 |
| Other | 199,245 | 159,978 |
| Uncollectible | <u>(150,973)</u> | <u>(20,609)</u> |
| Total miscellaneous revenues | <u>\$ 148,053</u> | <u>\$ 234,805</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Operating Revenue (continued)

Access revenues are classified above as follows:

- Customer revenues include end user charges such as the Subscriber Line Charge (SLC) and the Federal Universal Service Charge (FUSC), and Access Recovery Charge (ARC).
- Universal Service Support includes HCLS, ICLS, and CAF.
- All access charge and settlement revenue, except as described above, are classified as intercarrier revenue.

Note 11 – Fiber Lease Revenues

The Cooperative enters into noncancellable leases for fiber. The leases are accounted for as operating leases and have contract terms between 10 and 20 years. The Cooperative will receive the following lease payments under these agreements over the next five years:

| | |
|------|------------|
| 2016 | \$ 156,966 |
| 2017 | 154,866 |
| 2018 | 154,866 |
| 2019 | 154,866 |
| 2020 | 156,116 |

Note 12 – Related Party Transactions

During 2015 and 2014, the Cooperative and its subsidiary participated in various related party transactions. Vision Net is leasing fiber segments from the Cooperative. The Cooperative received lease and special access payments from Vision Net of \$379,371 in 2015 and \$372,970 in 2014. Norcom also utilizes the Vision Net network for transport. For the years ended December 31, 2015 and 2014, the Cooperative paid \$93,097 and \$86,885, respectively.

In addition, the Cooperative provided management services to iConnect. For the years ended December 31, 2015 and 2014, the Cooperative received \$110,655 and \$72,990, respectively.

SUPPLEMENTARY INFORMATION

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

Board of Directors
Northern Telephone Cooperative, Inc.

We have audited the consolidated financial statements of Northern Telephone Cooperative, Inc. as of and for the year then ended December 31, 2015, and have issued our report thereon dated February 6, 2016, which contains an unmodified opinion on those consolidated financial statements and appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet detail and consolidating statement of income detail is presented for purposes of additional analysis, rather than to present consolidated financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the supplementary financial information is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Moss Adams LLP

Spokane, Washington
February 6, 2016

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NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET DETAIL

| | December 31, 2015 | | | |
|--|---|-------------------------------------|------------------------|--------------------------|
| | Northern Telephone Cooperative, Inc. | Northern Communications, Inc. | Eliminating Entries | Consolidated Balances |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 323,102 | \$ 870,296 | \$ - | \$ 1,193,398 |
| Investment in certificates of deposit | 199,000 | - | - | 199,000 |
| Telecommunications accounts receivable | 122,585 | 46,613 | - | 169,198 |
| Settlements and access accounts receivable | 106,589 | - | - | 106,589 |
| Other accounts receivable | 3,333 | - | - | 3,333 |
| Income tax refund receivable | 1,591 | 35,761 | - | 37,352 |
| Accounts receivable, affiliate | - | 18,570 | (18,570) | - |
| Material and supplies | 444,631 | 13,176 | - | 457,807 |
| Other current assets | 21,270 | - | - | 21,270 |
| | <u>1,222,101</u> | <u>984,416</u> | <u>(18,570)</u> | <u>2,187,947</u> |
| NONCURRENT ASSETS | | | | |
| Investment in affiliates | 2,558,202 | 1,096,038 | (2,604,320) | 1,049,920 |
| Investment in nonaffiliates | 65,967 | 601,484 | - | 667,451 |
| Investment in certificates of deposit | 589,000 | - | - | 589,000 |
| | <u>3,213,169</u> | <u>1,697,522</u> | <u>(2,604,320)</u> | <u>2,306,371</u> |
| PROPERTY, PLANT, AND EQUIPMENT | | | | |
| Regulated telecommunications plant in service | 30,884,764 | - | - | 30,884,764 |
| Regulated telecommunications plant under construction | 736,721 | - | - | 736,721 |
| Nonregulated telecommunications plant in service | 43,044 | 568,934 | - | 611,978 |
| | <u>31,664,529</u> | <u>568,934</u> | <u>-</u> | <u>32,233,463</u> |
| Less accumulated depreciation and amortization | 21,289,405 | 524,172 | - | 21,813,577 |
| | <u>10,375,124</u> | <u>44,762</u> | <u>-</u> | <u>10,419,886</u> |
| | <u>\$ 14,810,394</u> | <u>\$ 2,726,700</u> | <u>\$ (2,622,890)</u> | <u>\$ 14,914,204</u> |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET DETAIL

| | December 31, 2015 | | | |
|---|---|-------------------------------------|------------------------|--------------------------|
| | Northern Telephone Cooperative, Inc. | Northern Communications, Inc. | Eliminating Entries | Consolidated Balances |
| CURRENT LIABILITIES | | | | |
| Accounts payable, general | \$ 29,030 | \$ - | \$ - | \$ 29,030 |
| Accounts payable, affiliate | 18,570 | - | (18,570) | - |
| Advance billing | 118,075 | 1,445 | - | 119,520 |
| Other accrued taxes | 82,289 | 35,614 | - | 117,903 |
| Other accrued liabilities | 150,628 | - | - | 150,628 |
| | | | | |
| Total current liabilities | 398,592 | 37,059 | (18,570) | 417,081 |
| OTHER LIABILITIES AND DEFERRED CREDITS | | | | |
| Other deferred credits | 301,899 | - | - | 301,899 |
| Deferred income taxes | - | 151,080 | - | 151,080 |
| | | | | |
| | 301,899 | 151,080 | - | 452,979 |
| MEMBERS' EQUITY | | | | |
| Memberships and other capital | 8,125 | - | - | 8,125 |
| Capital stock | - | 2,000 | (2,000) | - |
| Additional paid-in capital | - | 200,000 | (200,000) | - |
| Accumulated other comprehensive income | 224,296 | - | - | 224,296 |
| Retained margins | 13,877,482 | 2,336,561 | (2,402,320) | 13,811,723 |
| | | | | |
| | 14,109,903 | 2,538,561 | (2,604,320) | 14,044,144 |
| | | | | |
| | \$ 14,810,394 | \$ 2,726,700 | \$ (2,622,890) | \$ 14,914,204 |

NORTHERN TELEPHONE COOPERATIVE, INC.
CONSOLIDATING STATEMENT OF INCOME DETAIL

| | Year Ended December 31, 2015 | | | |
|-------------------------------|---|-------------------------------------|------------------------|--------------------------|
| | Northern Telephone Cooperative, Inc. | Northern Communications, Inc. | Eliminating Entries | Consolidated Balances |
| Operating revenues | | | | |
| Wireline | \$ 3,513,291 | \$ - | \$ - | \$ 3,513,291 |
| Internet | - | 498,836 | - | 498,836 |
| Fiber lease | - | 209,023 | - | 209,023 |
| Miscellaneous | (25,716) | 173,769 | - | 148,053 |
| | <u>3,487,575</u> | <u>881,628</u> | <u>-</u> | <u>4,369,203</u> |
| Operating expenses | | | | |
| Plant specific operations | 596,812 | - | - | 596,812 |
| Plant nonspecific operations | 193,041 | - | - | 193,041 |
| Depreciation and amortization | 1,262,101 | - | - | 1,262,101 |
| Customer operations | 245,580 | - | - | 245,580 |
| Corporate operations | 596,425 | - | - | 596,425 |
| Other operating taxes | 166,993 | - | - | 166,993 |
| Nonregulated | - | 687,378 | - | 687,378 |
| | <u>3,060,952</u> | <u>687,378</u> | <u>-</u> | <u>3,748,330</u> |
| Operating income | <u>426,623</u> | <u>194,250</u> | <u>-</u> | <u>620,873</u> |
| Nonoperating income (expense) | | | | |
| Interest and dividend income | 79,923 | 252,722 | (2,575) | 330,070 |
| Loss on disposal of assets | (20,716) | - | - | (20,716) |
| Other nonoperating expense | (3,151) | - | - | (3,151) |
| Income from affiliate | 380,277 | 82,647 | (392,894) | 70,030 |
| | <u>436,333</u> | <u>335,369</u> | <u>(395,469)</u> | <u>376,233</u> |
| Margins before income taxes | 862,956 | 529,619 | (395,469) | 997,106 |
| Income tax expense | <u>(5,906)</u> | <u>(136,725)</u> | <u>-</u> | <u>(142,631)</u> |
| Net margins | <u>\$ 857,050</u> | <u>\$ 392,894</u> | <u>\$ (395,469)</u> | <u>\$ 854,475</u> |